

**STORM LAKE
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS & QUESTIONED COSTS

JUNE 30, 2006

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STORM LAKE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

Mark Schultz	President	2007
Edward McKenna	Vice President	2007
Todd Nicholson		2006
Dan Douglas		2006
Leslie Cutler		2005

(After September, 2005 Election)

Mark Schultz	President	2007
Edward McKenna	Vice President	2007
Todd Nicholson		2006
Dan Douglas		2006
Leslie Cutler		2008

SCHOOL OFFICIALS

Paul Tedesco	Superintendent
Trudy Peterson	District Secretary/ Treasurer

Independent Auditor's Report

To the Board of Education of the
Storm Lake Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Storm Lake Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Storm Lake Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 12, 2006 on our consideration of Storm Lake Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Storm Lake Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce D. Frink
Certified Public Accountant

September 12, 2006

STORM LAKE COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Storm Lake Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$17,030,954 in fiscal 2005 to \$17,636,416 in fiscal 2006, while General Fund expenditures increased from \$16,489,418 in fiscal 2005 to \$18,052,223 in fiscal 2006.
- The increase in General Fund revenues was attributable to increases in state and federal grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits as well as increased Federal grant activity. The General Fund balance decreased due to allowable growth being inadequate to keep up with normal expenses increases.
- Interest earnings in the General Fund increased from \$58,252 in fiscal 2005 to \$63,539 in fiscal 2006.
- The District began collecting school infrastructure local option sales tax from Buena Vista County in fiscal 2005. The majority of the District's students reside in Buena Vista County. Revenues exceeded \$980,000 in fiscal 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the *short term*, as well as, what remains for future spending.
- The statements for *proprietary funds* offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as food services and community education.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Storm Lake Community School District

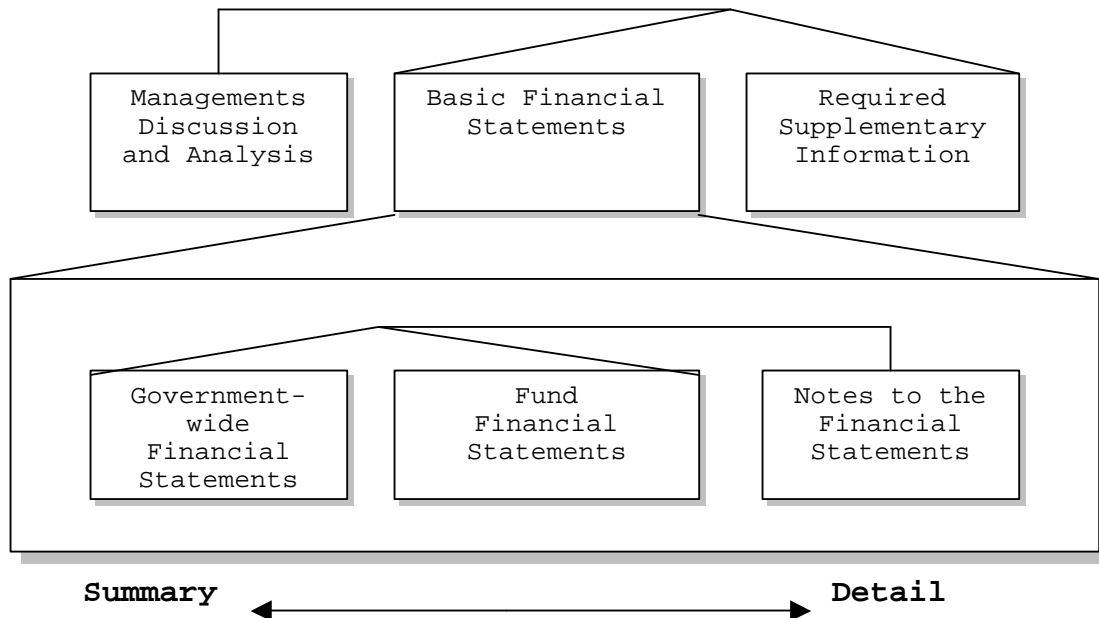


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> . Statement of Net Assets . Statement of Activities 	<ul style="list-style-type: none"> . Balance sheet . Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> . Statement of Net Assets . Statement of Revenues, Expenses and Changes in Net Assets . Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two government-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and community education programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Community Education Fund.

Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to 2005.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Percentage Change 2005-2006
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Current assets	15,657	13,503	233	217	15,890	13,720	15.82%
Capital assets	8,976	8,669	133	99	9,109	8,768	3.89%
Total assets	<u>24,633</u>	<u>22,172</u>	<u>366</u>	<u>316</u>	<u>24,999</u>	<u>22,488</u>	<u>11.17%</u>
Current liabilities	11,709	10,173	41	38	11,750	10,211	15.07%
Non-current liabilities	1,720	2,250	-	-	1,720	2,250	-23.56%
Total liabilities	<u>13,429</u>	<u>12,423</u>	<u>41</u>	<u>38</u>	<u>13,470</u>	<u>12,461</u>	<u>8.10%</u>
Net Assets							
Invested in capital assets, net of related debt	7,256	6,419	133	99	7,389	6,518	13.36%
Restricted	2,026	1,113	-	-	2,026	1,113	82.03%
Unrestricted	1,922	2,217	192	179	2,114	2,396	-11.77%
Total net assets	<u>11,204</u>	<u>9,749</u>	<u>325</u>	<u>278</u>	<u>11,529</u>	<u>10,027</u>	<u>14.98%</u>

The District's combined net assets increased by 15% at June 30, 2006 over June 30, 2005. This occurred primarily from the increase in the Capital Projects Fund resulting from the collection of the one cent sales tax from Buena Vista County where the majority of the District's students reside.

The General Fund decreased by 21% due to failure of revenues to keep pace with expenditures increases. 4% allowable growth is inadequate to maintain programs in a diverse environment.

Changes in net assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	1,256	1,344	603	599	1,859	1,943	-4.32%
Operating grants, contributions and restricted interest	4,186	3,814	588	561	4,774	4,375	9.12%
General revenues:							
Property tax	5,112	5,110	-	-	5,112	5,110	0.04%
Income surtax	233	342	-	-	233	342	-31.87%
Local option sales tax	989	925	-	-	989	925	6.92%
Unrestricted state grants	7,932	7,812	-	-	7,932	7,812	1.54%
Unrestricted investment earnings	64	58	-	-	64	58	10.34%
Other	357	61	-	-	357	61	485.25%
Total revenues	<u>20,129</u>	<u>19,466</u>	<u>1,191</u>	<u>1,160</u>	<u>21,320</u>	<u>20,626</u>	<u>3.36%</u>
Program expenses:							
Governmental activities:							
Instruction	12,442	11,941	-	-	12,442	11,941	4.20%
Support Services	5,201	4,680	-	-	5,201	4,680	11.13%
Non-instructional programs	-	56	1,144	1,181	1,144	1,237	-7.52%
Other expenses	1,031	1,096	-	-	1,031	1,096	-5.93%
Total expenses	<u>18,674</u>	<u>17,773</u>	<u>1,144</u>	<u>1,181</u>	<u>19,818</u>	<u>18,954</u>	<u>4.56%</u>
Change in net assets	<u>1,455</u>	<u>1,693</u>	<u>47</u>	<u>(21)</u>	<u>1,502</u>	<u>1,672</u>	<u>-10.17%</u>

Property tax and unrestricted state grants account for 61% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$20,129,098 and expenses were \$18,673,923.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(expressed in thousands)

	Total Cost of Services		Net Cost of Services		Net Change
	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	%
Instruction	12,442	11,941	7,726	7,438	3.87%
Support Services	5,201	480	5,083	4,614	10.16%
Non-instructional programs	-	56	-	56	-100.00%
Other expenses	<u>1,031</u>	<u>1,096</u>	<u>423</u>	<u>507</u>	<u>-16.57%</u>
Totals	<u>18,674</u>	<u>13,573</u>	<u>13,232</u>	<u>12,615</u>	<u>4.89%</u>

- The cost financed by users of the District's programs was \$1,255,890.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,190,911.
- The net cost of governmental activities was financed with \$5,112,443 in property tax, \$7,931,898 in state foundation aid, and \$63,539 in interest income.

Business Type Activities

Revenues of the District's business type activities were \$1,191,174 and expenses were \$1,144,281. The District's business type activities include the School Nutrition and Community Education Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Revenues increases in excess of additional expenses resulted in an increase in fund balance of approximately seventeen percent from the prior year.

Financial Analysis of the District's Funds

As previously noted the Storm Lake Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$11,204,172, 15 percent over last year's ending fund balances of \$9,748,997. This was primarily due to increases in the Capital Projects Fund.

Governmental Fund Highlights

- The District General Fund balance decreased due to revenues not keeping pace with increased expenses, primarily personnel costs and a new textbook series.
- Buena Vista County has implemented the one cent sales tax for school districts since 2004. The District collected over \$980,000 in fiscal 2006.

Proprietary Fund Highlights

Federal reimbursements increased due to increased participation in Federal nutrition programs. The number of reimbursable lunches increased by over 3% from the prior year.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 34 and 35.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$1,000,000 more than the total budgeted receipts, a variance of about 5%. The most significant change resulted in the District receiving more in Federal grant revenues than originally anticipated.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

The District did amend the 2005-06 budget as follows:

Increased the Total Support Services function from \$4,582,000 to \$5,582,500 (\$1,000,000) to meet actual expenditures.

Increased the Non-instructional Programs function from \$1,220,918 to \$1,720,918 (\$500,000) to meet actual expenditures.

The District's total requirements & tax levies were not affected by this amendment.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the District has invested more than \$16,000,000 in a broad range of capital assets including school buildings, athletic facilities, central kitchen, maintenance and administrative buildings, computer and audiovisual equipment, maintenance equipment, school buses, library holdings and textbooks. Total depreciation expense for the year exceeded \$435,000.

Long - Term Debt

The \$3.1 million dollar Middle School bond issue will fully mature May 2010, \$1,720,000 remains outstanding on that issue. The District's capital loan notes on the High School were paid off in May, 2006.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District experienced a increase of approximately 50 students in the 2005-2006 school year. Early projections would indicate an increase in official enrollment for the 2006-07 school year. The District is optimistic that enrollments will remain steady or increase slightly in the future.
- Health insurance costs continue to be a concern for the District. Increased rates based on usage have brought this issue to the forefront when calculating the District's budget.
- Once again un-funded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind" and "Student Achievement and Teacher Quality Act" to name a few.
- The District was identified as a recipient of a 21st Century Learning Center Grant beginning with the 2004-05 school year. The award is \$2.125 million over 5 years to fund the District's Elementary Before and After School Program. The District will be required to maintain the program in years 4 and 5 with decreased grant revenues.
- Voters in Buena Vista County approved a 1 cent School Infrastructure Local Option (SILO) tax in December 2003, with an effective date of July 1, 2004. The District anticipates asking voters to extend the SILO tax through December 31, 2022.
- Voters in Sac County approved a 1 cent School Infrastructure Local Option (SILO) Sales tax in September 2003. The Sac County SILO tax went into effect on January 1, 2004.
- The Board of Education intends to accumulate the SILO funds for several years to buy down the debt on a proposed elementary building. As of June 30, 2006 , over \$1.9 million has been accumulated towards this goal. The District anticipates construction will begin in Spring or Summer of 2007.
- The District anticipates issuing GO and SILO bonds in the 2006-2007 and 2007-2008 fiscal years to fund construction of a \$17.9 million elementary school.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paul Tedesco , Superintendent, Storm Lake Community School District, 419 Lake Ave, Storm Lake, Iowa 50588.

Basic Financial Statements

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	4,934,773	205,137	5,139,910
ISCAP investments	4,233,426	-	4,233,426
Receivables:			
Property tax:			
Current year	54,695	-	54,695
Succeeding year	5,135,365	-	5,135,365
Income surtaxes	173,475	-	173,475
Due from other governments	1,084,394	11,435	1,095,829
Other receivables	1,960	3,649	5,609
Inventories	-	12,887	12,887
Restricted assets (note 11):			
ISCAP accrued interest receivable	39,501	-	39,501
Capital assets, net of accumulated depreciation (note 3)	8,975,570	132,858	9,108,428
Total assets	24,633,159	365,966	24,999,125
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	384,003	36,397	420,400
Accrued salary and benefits	1,775,510	4,850	1,780,360
Accrued interest payable	3,288	-	3,288
ISCAP warrants payable (note 11)	4,230,000	-	4,230,000
ISCAP accrued interest payable (note 11)	66,602	-	66,602
Deferred revenue:			
Succeeding year property tax	5,135,365	-	5,135,365
Federal programs	114,219	-	114,219
Long term liabilities:			
Portion due within one year:			
Bonds payable	475,000	-	475,000
Portion due after one year:			
Bonds payable	1,245,000	-	1,245,000
Total liabilities	13,428,987	41,247	13,470,234
Net assets:			
Invested in capital assets, net of related debt	7,255,570	132,858	7,388,428
Restricted for:			
Physical plant and equipment levy	69,140	-	69,140
Debt service	32,285	-	32,285
Capital projects	1,924,681	-	1,924,681
Unrestricted	1,922,496	191,861	2,114,357
Total net assets	11,204,172	324,719	11,528,891

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	<u>12,442,305</u>	<u>1,234,955</u>	<u>3,481,023</u>	<u>(7,726,327)</u>	<u>-</u>	<u>(7,726,327)</u>
Support services:						
Student services	611,262	20,935	-	(590,327)	-	(590,327)
Instructional staff services	760,434	-	-	(760,434)	-	(760,434)
Administration services	1,830,017	-	46,530	(1,783,487)	-	(1,783,487)
Operation and maintenance of plant services	1,545,283	-	39,588	(1,505,695)	-	(1,505,695)
Transportation services	<u>453,536</u>	<u>-</u>	<u>10,852</u>	<u>(442,684)</u>	<u>-</u>	<u>(442,684)</u>
	<u>5,200,532</u>	<u>20,935</u>	<u>96,970</u>	<u>(5,082,627)</u>	<u>-</u>	<u>(5,082,627)</u>
Other expenditures:						
Facilities acquisition and construction	8,745	-	16,155	7,410	-	7,410
Long-term debt interest	49,527	-	949	(48,578)	-	(48,578)
Long-term debt services	800	-	-	(800)	-	(800)
AEA flowthrough	591,183	-	591,183	-	-	-
Depreciation (unallocated)*	<u>380,831</u>	<u>-</u>	<u>-</u>	<u>(380,831)</u>	<u>-</u>	<u>(380,831)</u>
	<u>1,031,086</u>	<u>-</u>	<u>608,287</u>	<u>(422,799)</u>	<u>-</u>	<u>(422,799)</u>
Total governmental activities	18,673,923	1,255,890	4,186,280	(13,231,753)	-	(13,231,753)

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business type activities:					
Non-instructional programs:					
Nutrition services	906,864	387,000	562,580	-	42,716
Community education	237,417	216,256	25,338	-	4,177
Total	19,818,204	1,859,146	4,774,198	(13,231,753)	46,893
					(13,184,860)
General revenues:					
Property tax levied for:					
General purposes			4,153,196	-	4,153,196
Management fund			298,181	-	298,181
Debt service			509,724	-	509,724
Capital outlay			151,342	-	151,342
Local option sales taxes			988,850	-	988,850
Income surtaxes:					
General purposes			84,029	-	84,029
Capital outlay			148,609	-	148,609
Unrestricted state grants			7,931,898	-	7,931,898
Unrestricted investment earnings			63,539	-	63,539
Other			357,560	-	357,560
Total general revenue			14,686,928	-	14,686,928
Change in net assets			1,455,175	46,893	1,502,068
Net assets beginning of year			9,748,997	277,826	10,026,823
Net assets end of year			11,204,172	324,719	11,528,891

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	2,890,197	26,852	1,767,476	250,248	4,934,773
ISCAP investments	4,233,426	-	-	-	4,233,426
Receivables:					
Property tax:					
Current year	44,457	5,433	-	4,805	54,695
Succeeding year	4,150,442	514,456	-	470,467	5,135,365
Income surtax	57,825	-	-	115,650	173,475
Due from other governments	900,215	-	157,205	26,974	1,084,394
Other receivables	1,960	-	-	-	1,960
ISCAP accrued interest receivable	39,501	-	-	-	39,501
Total assets	<u>12,318,023</u>	<u>546,741</u>	<u>1,924,681</u>	<u>868,144</u>	<u>15,657,589</u>
Liabilities:					
Accounts payable	350,543	-	-	33,460	384,003
Accrued salary and benefits	1,775,510	-	-	-	1,775,510
ISCAP warrants payable	4,230,000	-	-	-	4,230,000
ISCAP accrued interest payable	66,602	-	-	-	66,602
Deferred revenue:					
Succeeding year property tax	4,150,442	514,456	-	470,467	5,135,365
Income surtaxes	57,825	-	-	115,650	173,475
Federal programs	114,219	-	-	-	114,219
Total liabilities	<u>10,745,141</u>	<u>514,456</u>	<u>-</u>	<u>619,577</u>	<u>11,879,174</u>
Fund balances:					
Reserved for debt service	-	32,285	-	-	32,285
Reserved for capital projects	-	-	1,924,681	-	1,924,681
Unreserved, designated for special purposes	160,893	-	-	-	160,893
Unreserved, undesignated	1,411,989	-	-	248,567	1,660,556
Total fund balances	<u>1,572,882</u>	<u>32,285</u>	<u>1,924,681</u>	<u>248,567</u>	<u>3,778,415</u>
Total liabilities and fund balances	<u>12,318,023</u>	<u>546,741</u>	<u>1,924,681</u>	<u>868,144</u>	<u>15,657,589</u>

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)	\$ 3,778,415
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	173,475
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,975,570
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(3,288)
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,720,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 11,204,172</u></u>

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	4,227,490	509,724	988,850	598,132	6,324,196
Tuition	1,200,001	-	-	-	1,200,001
Other	522,618	572	16,155	340,929	880,274
State sources	9,256,665	377	-	27,308	9,284,350
Federal sources	2,429,642	-	-	-	2,429,642
Total revenues	<u>17,636,416</u>	<u>510,673</u>	<u>1,005,005</u>	<u>966,369</u>	<u>20,118,463</u>
Expenditures:					
Instruction:	<u>12,254,781</u>	<u>-</u>	<u>-</u>	<u>350,709</u>	<u>12,605,490</u>
Support services:					
Student services	611,262	-	-	-	611,262
Instructional staff services	794,557	-	-	47,598	842,155
Administration services	1,814,503	-	1,089	14,425	1,830,017
Operation and maintenance of plant services	1,580,340	-	-	163,902	1,744,242
Transportation services	405,597	-	-	-	405,597
Central support	-	-	-	-	-
	<u>5,206,259</u>	<u>-</u>	<u>1,089</u>	<u>225,925</u>	<u>5,433,273</u>
Other expenditures:					
Facilities acquisition and construction	-	-	5,900	294,268	300,168
Long-term debt:					
Principal	-	530,000	-	-	530,000
Interest	-	50,443	-	-	50,443
Services	-	800	-	-	800
AEA flowthrough	591,183	-	-	-	591,183
	<u>591,183</u>	<u>581,243</u>	<u>5,900</u>	<u>294,268</u>	<u>1,472,594</u>
Total expenditures	<u>18,052,223</u>	<u>581,243</u>	<u>6,989</u>	<u>870,902</u>	<u>19,511,357</u>

STORM LAKE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	<u>(415,807)</u>	<u>(70,570)</u>	<u>998,016</u>	<u>95,467</u>	<u>607,106</u>
Other financing sources (uses):					
Sale of equipment and materials	900	-	-	-	900
Operating transfers in	-	68,025	-	-	68,025
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(68,025)</u>	<u>(68,025)</u>
	<u>900</u>	<u>68,025</u>	<u>-</u>	<u>(68,025)</u>	<u>900</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(414,907)	(2,545)	998,016	27,442	608,006
Fund balances beginning of year	<u>1,987,789</u>	<u>34,830</u>	<u>926,665</u>	<u>221,125</u>	<u>3,170,409</u>
Fund balances end of year	<u><u>1,572,882</u></u>	<u><u>32,285</u></u>	<u><u>1,924,681</u></u>	<u><u>248,567</u></u>	<u><u>3,778,415</u></u>

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 608,006

Amounts reported for governmental activities in the
statement of activities are different because:

Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 9,735

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 735,288	
Depreciation expense	<u>(428,770)</u>	306,518

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 530,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 916

Change in net assets of governmental activities (Exhibit B) \$ 1,455,175

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets
Proprietary Funds

Year ended June 30, 2006

	School Nutrition	Community Education	Total
	\$	\$	
Assets			
Cash	190,482	14,655	205,137
Due from other governments	7,845	3,590	11,435
Other receivables	1,749	1,900	3,649
Inventories	12,887	-	12,887
Capital assets, net of accumulated depreciation	114,336	18,522	132,858
Total assets	327,299	38,667	365,966
Liabilities			
Accounts payable	35,995	402	36,397
Accrued salary and benefits	1,689	3,161	4,850
Total liabilities	37,684	3,563	41,247
Net assets			
Invested in capital assets, net of related debt	114,336	18,522	132,858
Unrestricted	175,279	16,582	191,861
Total net assets	289,615	35,104	324,719

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2006

	School Nutrition	Community Education	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for services	<u>387,000</u>	<u>216,256</u>	<u>603,256</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	62,133	-	62,133
Benefits	27,322	-	27,322
Services	305,999	-	305,999
Supplies	503,793	-	503,793
Other	341	-	341
Depreciation	<u>7,276</u>	<u>-</u>	<u>7,276</u>
	<u>906,864</u>	<u>-</u>	<u>906,864</u>
Other enterprise operations:			
Salaries	-	141,333	141,333
Benefits	-	44,267	44,267
Services	-	14,492	14,492
Supplies	-	35,690	35,690
Depreciation	<u>-</u>	<u>1,635</u>	<u>1,635</u>
	<u>-</u>	<u>237,417</u>	<u>237,417</u>
Total operating expenses	<u>906,864</u>	<u>237,417</u>	<u>1,144,281</u>
Operating (loss)	<u>(519,864)</u>	<u>(21,161)</u>	<u>(541,025)</u>
Non-operating revenues:			
Interest on investments	1,622	176	1,798
State sources	10,104	-	10,104
Federal sources	<u>550,854</u>	<u>25,162</u>	<u>576,016</u>
	<u>562,580</u>	<u>25,338</u>	<u>587,918</u>
Net profit	42,716	4,177	46,893
Net assets beginning of year	<u>246,899</u>	<u>30,927</u>	<u>277,826</u>
Net assets end of year	<u><u>289,615</u></u>	<u><u>35,104</u></u>	<u><u>324,719</u></u>

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	School Nutrition	Community Education	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	385,945	214,356	600,301
Cash payments to employees for services	(90,928)	(183,914)	(274,842)
Cash payments to suppliers for goods or services	(758,587)	(49,780)	(808,367)
Net cash provided by (used in) operating activities	(463,570)	(19,338)	(482,908)
Cash flows from non-capital financing activities:			
State grants received	10,104	-	10,104
Federal grants received	496,122	21,572	517,694
Net cash provided by non-capital financing activities	506,226	21,572	527,798
Cash flows from capital financing activities:			
Acquisition of fixed assets	(42,711)	-	(42,711)
Cash flows from investing activities:			
Interest on investments	1,622	176	1,798
Net increase (decrease) in cash and cash equivalents	1,567	2,410	3,977
Cash and cash equivalents beginning of year	188,915	12,245	201,160
Cash and cash equivalents end of year	190,482	14,655	205,137
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(519,864)	(21,161)	(541,025)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	7,276	1,635	8,911
Commodities used	53,540	-	53,540
(Increase) in other receivables	(1,055)	(1,900)	(2,955)
(Increase) in inventory	(4,642)	-	(4,642)
Increase in accounts payable	2,648	402	3,050
Increase(decrease) in accrued payroll and benefits	(1,473)	1,686	213
	(463,570)	(19,338)	(482,908)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	190,482	14,655	205,137

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received federal commodities valued at \$53,540.

See notes to financial statements.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Storm Lake Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Storm Lake, Iowa, and agricultural territory in Buena Vista and Sac Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Storm Lake Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Storm Lake Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Buena Vista County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of Interfund activity has been removed from these statements. Governmental activities which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition and Community Education Funds. These funds are used to account for the food service and community wide education operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures exceeded the amount budgeted in the other expenditures function.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public fund.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>860,325</u>	<u>-</u>	<u>-</u>	<u>860,325</u>
Capital assets being depreciated:				
Improvements other than buildings	947,433	7,502	-	954,935
Buildings	9,920,251	1,228	20,038	9,901,441
Furniture and Equipment	<u>3,962,011</u>	<u>726,558</u>	<u>-</u>	<u>4,688,569</u>
Total capital assets being depreciated	<u>14,829,695</u>	<u>735,288</u>	<u>20,038</u>	<u>15,544,945</u>
Less accumulated depreciation for:				
Improvements other than buildings	576,311	29,048	-	605,359
Buildings	3,538,641	192,896	20,038	3,711,499
Furniture and Equipment	<u>2,906,016</u>	<u>206,826</u>	<u>-</u>	<u>3,112,842</u>
Total accumulated depreciation	<u>7,020,968</u>	<u>428,770</u>	<u>20,038</u>	<u>7,429,700</u>
Total capital assets being depreciated, net	<u>7,808,727</u>	<u>306,518</u>	<u>-</u>	<u>8,115,245</u>
Governmental activities, capital assets, net	<u>8,669,052</u>	<u>306,518</u>	<u>-</u>	<u>8,975,570</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities				
Furniture and Equipment	402,924	42,711	-	445,635
Less accumulated depreciation	<u>303,866</u>	<u>8,911</u>	<u>-</u>	<u>312,777</u>
Business type activities capital assets, net	<u>99,058</u>	<u>33,800</u>	<u>-</u>	<u>132,858</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Student transportation	47,939
Unallocated	<u>380,831</u>
	<u>428,770</u>

Business type activities:

Food service operations	7,276
Other business type activities	<u>1,635</u>
	<u>8,911</u>

(4) Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u> %	<u>Interest</u> \$	<u>Principal</u> \$	<u>Total</u> \$
2007	1.95-2.20	39,456	475,000	514,456
2008	2.30-2.45	29,125	485,000	514,125
2009	2.50-2.65	17,300	500,000	517,300
2010	2.80-3.00	<u>5,240</u>	<u>260,000</u>	<u>265,240</u>
Total		<u>91,121</u>	<u>1,720,000</u>	<u>1,811,121</u>

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	<u>General Obligation Bonds</u>	<u>Capital Loan Notes</u>	<u>Total</u>
Balance beginning of year	\$2,185,000	65,000	2,250,000
Additions	-	-	-
Reductions	<u>465,000</u>	<u>65,000</u>	<u>530,000</u>
Balance end of year	<u>\$1,720,000</u>	<u>-</u>	<u>1,720,000</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$606,458, \$584,213, and \$559,082 respectively, equal to the required contributions for each year.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$591,183 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to the employee's salary calculated by using the current year regular salary schedule, less the current year base pay. Early retirement benefits paid during the year ended June 30, 2006 totaled \$39,634.

(9) Capital Loan Notes

The District issued \$465,000 of Capital Loan Notes dated November 1, 1996. The proceeds from this debt issuance were used to construct an addition to the existing high school building. The notes will be paid back over a ten year period from a combination of property taxes and income surtax from the voter-approved Physical Plant and Equipment Levy. The interest rate on the entire issue is 5.25%.

These notes were fully retired in fiscal year 2006.

(10) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2005-06A	6/30/05	6/30/06	\$ -	-	-	-
2005-06B	1/26/06	1/26/07	1,913,655	38,780	1,907,000	48,351
2006-07A	6/28/06	6/28/07	<u>2,319,771</u>	<u>721</u>	<u>2,323,000</u>	<u>18,251</u>
Total			<u>\$4,233,426</u>	<u>39,501</u>	<u>4,230,000</u>	<u>66,602</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2005-06A	-	-	-	-
2005-06B	-	<u>200,000</u>	<u>200,000</u>	-
	<u>\$ -</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

Required Supplementary Information

STORM LAKE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive
	Actual	Actual	Actual	Original	Final	(Negative)
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	8,404,471	605,054	9,009,525	8,873,573	8,873,573	135,952
State sources	9,284,350	10,104	9,294,454	9,404,006	9,404,006	(109,552)
Federal sources	2,429,642	576,016	3,005,658	2,020,000	2,020,000	985,658
Total revenues	<u>20,118,463</u>	<u>1,191,174</u>	<u>21,309,637</u>	<u>20,297,579</u>	<u>20,297,579</u>	<u>1,012,058</u>
Expenditures:						
Instruction	12,605,490	-	12,605,490	14,146,838	14,146,838	1,541,348
Support services	5,433,273	-	5,433,273	4,582,000	5,582,000	148,727
Non-instructional programs	-	1,144,281	1,144,281	1,220,918	1,720,918	576,637
Other expenditures	1,472,594	-	1,472,594	1,355,433	1,355,433	(117,161)
Total expenditures	<u>19,511,357</u>	<u>1,144,281</u>	<u>20,655,638</u>	<u>21,305,189</u>	<u>22,805,189</u>	<u>2,149,551</u>
Excess (deficiency) of revenues over (under) expenditures	607,106	46,893	653,999	(1,007,610)	(2,507,610)	3,161,609
Other financing sources (uses)	<u>900</u>	<u>-</u>	<u>900</u>	<u>500</u>	<u>500</u>	<u>400</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	608,006	46,893	654,899	(1,007,110)	(2,507,110)	3,162,009
Balance beginning of year	<u>3,170,409</u>	<u>277,826</u>	<u>3,448,235</u>	<u>4,232,053</u>	<u>4,232,053</u>	<u>(783,818)</u>
Balance end of year	<u><u>3,778,415</u></u>	<u><u>324,719</u></u>	<u><u>4,103,134</u></u>	<u><u>3,224,943</u></u>	<u><u>1,724,943</u></u>	<u><u>2,378,191</u></u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment that increased budgeted expenditures by \$1.5 million.

During the year ended June 30, 2006, expenditures exceeded the amount budgeted in the other expenditures function. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	90,158	86,077	74,013	250,248
Property tax receivable:				
Current year	3,192	-	1,613	4,805
Succeeding year	350,000	-	120,467	470,467
Income surtax	-	-	115,650	115,650
Due from other governments	-	-	26,974	26,974
Total assets	<u>443,350</u>	<u>86,077</u>	<u>338,717</u>	<u>868,144</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	-	-	33,460	33,460
Deferred revenue:				
Succeeding year property tax	350,000	-	120,467	470,467
Income surtax	-	-	115,650	115,650
	<u>350,000</u>	<u>-</u>	<u>269,577</u>	<u>619,577</u>
Fund balance:				
Unreserved fund balances	<u>93,350</u>	<u>86,077</u>	<u>69,140</u>	<u>248,567</u>
Total liabilities and fund balances	<u>443,350</u>	<u>86,077</u>	<u>338,717</u>	<u>868,144</u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	298,181	-	299,951	598,132
Other	11,192	328,649	1,088	340,929
State sources	222	-	27,086	27,308
Total revenues	<u>309,595</u>	<u>328,649</u>	<u>328,125</u>	<u>966,369</u>
Expenditures:				
Instruction:	38,612	312,097	-	350,709
Support services:				
Instructional staff support	-	-	47,598	47,598
Administration services	13,638	-	787	14,425
Plant operation and maintenance	163,902	-	-	163,902
Student transportation	-	-	-	-
Central support	-	-	-	-
Noninstructional programs:				
Food service operations	-	-	-	-
Other expenditures:				
Facilities acquisition and construction	-	-	294,268	294,268
Total expenditures	<u>216,152</u>	<u>312,097</u>	<u>342,653</u>	<u>870,902</u>
Excess (deficiency) of revenues over (under) expenditures	<u>93,443</u>	<u>16,552</u>	<u>(14,528)</u>	<u>95,467</u>
Other financing (uses):				
Operating transfers out	-	-	(68,025)	(68,025)
Total operating financing (uses)	<u>-</u>	<u>-</u>	<u>(68,025)</u>	<u>(68,025)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	93,443	16,552	(82,553)	27,442
Fund balances beginning of year	<u>(93)</u>	<u>69,525</u>	<u>151,693</u>	<u>221,125</u>
Fund balances end of year	<u>93,350</u>	<u>86,077</u>	<u>69,140</u>	<u>248,567</u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Hi Breeze	66	-	-	66
Breeze of 2007	4,679	770	5,449	-
Breeze of 2006	-	20,959	18,488	2,471
Art Club	627	1,141	904	864
Kreative Kitchens	431	2,616	2,345	702
FACS	4,034	1,092	981	4,145
Nado Nook	-	5,624	5,314	310
International Club	402	-	139	263
Spanish Club	1,060	79	569	570
Key Club	281	819	806	294
Thespian Club	335	191	269	257
Library Club	192	-	-	192
PIC	231	-	-	231
Close-Up	135	-	-	135
Cheerleaders	820	12,081	11,190	1,711
Dance Squad	1,976	14,960	14,942	1,994
Student Council	2,077	27,631	30,101	(393)
Class of 2010	913	211	1,124	-
Class of 2007	-	23,993	22,251	1,742
School Play	2,160	629	265	2,524
Speech	628	6,590	3,558	3,660
School Musical	3,276	-	-	3,276
All State Music	1,158	6,991	8,160	(11)
Instrumental Rental	749	254	437	566
Stage Band	43	-	-	43
Vocal Music	405	11	11	405
Chamber Singers	319	-	-	319
Orchestra	925	782	1,007	700
Academic Enrichment	3,075	6,712	4,655	5,132
School Improvement	936	34,195	27,086	8,045
Drama/Musical	1,389	-	-	1,389
Concessions	2,541	2,000	-	4,541
Interest	3,653	1,786	166	5,273
Star Club	378	-	250	128
DECA	2,645	9,750	12,017	378
Technology Club	541	25	24	542
Instrumental Resale	(852)	2,078	1,122	104
Alternative HS	1,035	860	771	1,124
VICA Club	279	253	401	131
ACE	1,649	7,225	6,532	2,342
Industrial Arts Club	23	-	-	23
Model UN	275	-	-	275
Guidance Office	262	524	324	462
General Athletics	31,164	11,135	15,995	26,304

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Volleyball	(2,225)	11,805	9,580	-
Cross Country	77	1,262	1,339	-
Boys Basketball	950	11,217	12,167	-
Football	(4,779)	20,998	16,219	-
Boys Soccer	(279)	9,144	8,865	-
Baseball	(1,470)	8,744	7,274	-
Boys Track	(1,531)	9,188	7,657	-
Boys Tennis	(895)	4,434	3,539	-
Boys Golf	124	1,237	1,361	-
Boys Swimming	(250)	250	-	-
Wrestling	(724)	5,438	4,714	-
Girls Basketball	2,383	12,637	15,020	-
Girls Soccer	(339)	4,135	3,796	-
Softball	952	12,919	13,871	-
Girls Track	(2,316)	8,232	5,916	-
Girls Tennis	(265)	634	369	-
Girls Golf	63	280	343	-
Girls Swimming	329	2,085	2,414	-
Middle School Activities	2,805	43	-	2,848
	<u>2,805</u>	<u>43</u>	<u>-</u>	<u>2,848</u>
Grand total	<u>69,525</u>	<u>328,649</u>	<u>312,097</u>	<u>86,077</u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2006	2005	2004	2003
Local sources:				
General	4,227,490	4,209,046	4,162,417	4,194,252
Special revenue/debt service	1,107,856	1,086,590	1,160,568	934,821
Capital projects	988,850	925,247	618	-
	<u>6,324,196</u>	<u>6,220,883</u>	<u>5,323,603</u>	<u>5,129,073</u>
State sources:				
General	9,256,665	9,058,009	8,356,506	8,222,757
Special revenue/debt service	27,685	766	318	318
	<u>9,284,350</u>	<u>9,058,775</u>	<u>8,356,824</u>	<u>8,223,075</u>
Federal sources:				
General	2,429,642	2,140,287	1,478,466	1,629,245
Special revenue/debt service	-	-	200,000	934,821
	<u>2,429,642</u>	<u>2,140,287</u>	<u>1,678,466</u>	<u>2,564,066</u>
Total	<u>18,038,188</u>	<u>17,419,945</u>	<u>15,358,893</u>	<u>15,916,214</u>

See accompanying independent auditor's report.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Direct:			
U.S. Corporation for National and Community Service: Americorps	94.006	FY06	25,162
U.S. Department of Education: 21st Century Community Learning Centers Program	84.287	FY06	539,746
Indirect:			
U.S. Department of Agriculture: Iowa Department of Education: Food Distribution (non-cash)	10.550	FY06	53,540
Team Nutrition	10.574	FY06	3,500
Iowa Nutrition Network Basics	10.561	FY06	9,643
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY06	92,842
Fruit and Vegetable Pilot Grant	10.555	FY06	12,879
National School Lunch Program	10.555	FY06	382,940
			<u>488,661</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	6219-G-06	383,059
Migrant Education - Basic State Grant Program	84.011	6219-MC-06	255,600
Grants for Assessments and Related Activities	84.369	FY06	11,556
Innovative Education Program Strategies	84.298	FY06	8,309
Even Start Statewide Family Literacy Program	84.314	FY06	67,500
Improving Teacher Quality - Grants to States	84.348	FY06	73,235
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY06	17,931

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Reading First	84.359	FY06	402,945
Immigrant Education	84.162	FY06	32,032
Fund for the Improvement of Education (Bilingual ESL)	84.182	FY06	15,497
Grants for Enhanced Assessment Instruments	84.368	FY06	2,423
Charter Schools Program	84.282	FY06	98,555
Prairie Lakes Area Educational Agency:			
Special Education - Grants to States (IDEA Part B)	84.027	FY06	121,577
English Language Acquisition States Grants	84.365A	FY06	<u>86,099</u>
Total			<u><u>2,696,570</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Storm Lake Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Storm Lake Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Storm Lake Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 12, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Storm Lake Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-II-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Storm Lake Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Storm Lake Community School District and other parties to whom Storm Lake Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Storm Lake Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

September 12, 2006

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

To the Board of Education of the
Storm Lake Community School District:

Compliance

We have audited the compliance of Storm Lake Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Storm Lake Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Storm Lake Community School District's management. Our responsibility is to express an opinion on Storm Lake Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Storm Lake Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Storm Lake Community School District's compliance with those requirements.

In our opinion Storm Lake Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Storm Lake Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Storm Lake Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Storm Lake Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item 06-III-A of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 06-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Storm Lake Community School District and other parties to whom Storm Lake Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

BRUCE D. FRINK
Certified Public Accountant

September 12, 2006

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Education Agencies
 - CFDA Number 84.287 - 21st Century Community Learning Centers Program.School Nutrition Clustered Programs:
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - Fruit and Vegetable Pilot Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Storm Lake Community School District did not qualify as a low-risk auditee.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-II-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number: 84.101 Title I Grants to Local Education Agencies

Agency Number: 6219-G-06

Federal Award Year: 2006

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 84.287 21st Century Community Learning Centers Program

Federal Award Year: 2006

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 10.553 School Breakfast Program

10.555 National School Lunch Program

10.555 Fruit and Vegetable Pilot Grant

Federal Award Year: 2006

US Department of Agriculture

Passed through Iowa Department of Education

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part III: Findings For Federal Awards:
(continued):

06-III-A Segregation of Duties over Federal Funds - The District did not properly segregate custody, record-keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

06-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-IV-B Certified Budget - Expenditures for the year ended June 30, 2006, exceeded the amount budgeted in the other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

06-IV-C Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

06-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

06-IV-E Business Transactions - No business transactions between the District and District officials or employees were noted.

06-IV-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

STORM LAKE COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:
(continued):

- 06-IV-G Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- 06-IV-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 06-IV-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-IV-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.